

MOTOR VEHICLE EXCISE TAX
RCWs 81.100 and 81.104
(NOTE: state tax repealed, effective January 1, 2000)

Tax Base The value of motor vehicles designed for primary use on the public highways. The tax is based on the manufacturer's base suggested retail price when the vehicle is first offered for sale. Applied to the original base value is a statutory depreciation schedule contained in RCW 82.44.041.

Under Referendum #49, adopted in November, 1998, the depreciation percentage is reduced for the second and third year as follows: 2nd year, 95% instead of 100%; and 3rd year, 89% instead of 91%. Subsequent annual reductions occur until the taxable value reaches 10 percent of the original price in the 13th year.

Tax Rate

STATE: No longer imposed. (See note below).

LOCAL: 0.8 percent - high capacity transportation service. The statute provides for a local motor vehicle excise tax (MVET) of up to 0.8 percent for funding of high capacity transportation. However, the Regional Transit Authority (Sound Transit) levies only 0.3 percent of the authorized rate. (RCW 81.104.160)

0.3 percent - high occupancy vehicle lanes. This tax is computed as a surtax on the state 2.2 percent tax, but is not credited against that tax(which no longer exists). Therefore, this local tax would represent an additional tax for the vehicle owner. However, the local tax has not been levied. (RCW 81.100.060)

0.725 percent for mass transit systems. Any municipality may impose a motor vehicle excise tax of up to 0.725 percent for mass transit systems. This is not an additional tax for the vehicle owner, as it is credited against the state excise tax (which no longer exists). The local tax is not believed to have been levied by any city. (RCW 35.58.273(1))

Levied by

(NOTE: Until the year 2000 the state levied an annual excise tax of 2.2 percent on each motor vehicle, pursuant to RCW 82.44.020. Also, a clean air excise tax of \$2.00 per vehicle was imposed. Both taxes were repealed by Initiative 695 approved by the voters in November, 1999. Although the Initiative was subsequently declared unconstitutional, the Legislature effectively repealed the state tax by enacting SB 6865, Chapter 1, 1st Special Session, Laws of 2000 which was effective on January 1, 2000.)

Local - High Capacity Transportation Service. Cities, counties, metropolitan municipal corporations, and public transportation benefit areas may levy a local option motor vehicle excise tax of up to 0.8 percent, if approved by the voters. (The maximum rate must be reduced by any tax levied for high occupancy vehicles, as below.) The tax applies to vehicles registered to residents of the jurisdiction and the proceeds must be devoted to high capacity transportation service. The tax may be levied only if all local agencies or members of a regional transportation authority levy the tax and at the same rate. Since this tax is not credited against the state tax, it imposes an additional tax upon the owner of the vehicle. Through December, 2001, only the Regional Transit Authority (R.T.A.) in King, Pierce and Snohomish had levied this tax; the rate implemented by the R.T.A. is 0.3 percent.

Local - High Occupancy Vehicle Lanes. King, Pierce and Snohomish counties may levy a local surcharge of up to 13.64 percent on the state motor vehicle excise tax (which no longer exists), if approved by the voters. The maximum local rate equals 0.3 percent ($2.2\% \times 0.1364$) and applies to vehicles owned by residents of the county. Proceeds must be devoted to the development of high occupancy vehicle (HOV) lanes. Through December, 2001, none of these counties had levied this tax.

Local - Mass Transit. Any municipality may impose a motor vehicle excise tax of up to 0.725 percent for mass transit systems. This is not an additional tax for the vehicle owner, as it is credited against the state excise tax (which no longer exists). Such a tax has yet to be imposed by any city.

Recent Collections - 2.2 Percent Former State Tax Only (\$000)

| <u>Fiscal Year</u> | <u>Collections</u> | <u>% Change</u> | <u>% of All State Taxes</u> |
|--------------------|--------------------|-----------------|---------------------------------|
| 2001 | - - - | -.- | -.- |
| 2000 | \$330,121 | (60.8%) | 2.8% |
| 1999 | 841,135 | 8.5 | 7.3 |
| 1998 | 775,310 | 7.3% | 7.0 |
| 1997 | 722,503 | 4.2 | 6.9 |
| 1996 | 693,330 | 5.9 | 7.0 |
| 1995 | 654,528 | 12.1 | 6.8 |
| 1994 | 583,906 | 9.2 | 6.5 |
| 1993 | 534,886 | 5.0 | 6.4 |
| 1992 | 509,285 | 10.7 | 6.5 |

The 0.3 percent tax levied by the R.T.A. generated \$56.2 million during calendar year 2000.

Administration

Department of Licensing. The tax is paid annually by vehicle owners at the time of registration to the Department, county auditors or other licensing agents. The tax applies for the 12 month registration year, according to the day on which the vehicle is first registered. Prior to the expiration of a current license, the Department sends renewal notices to registered owners. The statute provides that Washington residents who use their vehicles in Washington but license them in other states in order to avoid the motor vehicle excise tax are subject to the Washington tax. The Department of Revenue is authorized to collect unpaid motor vehicle excise and retail sales/use taxes in order to utilize the administrative provision of Chapter 82.32 RCW.

Exemptions and Credits (for prior state tax; presumably same exemptions apply for local MVET)

- publicly owned vehicles with "exempt" licenses;
- vehicles designed for principal use off of public highways;
- motor vehicles and trailers used entirely upon private property;
- mobile homes and travel trailers (subject to separate tax);
- vehicles owned by nonresident military personnel at the time they were first stationed in Washington;
- vehicles owned by dealers and operated with the use of a dealer's license plate (obtainable by paying an in lieu excise tax of \$2);
- truck-type power and trailing units of 6,000 pounds or less;
- the value of motor vehicles attributable to modifications to facilitate use by handicapped persons;
- passenger vehicles regularly used by at least five persons in conjunction with commuter trip reduction programs in the eight largest counties and ride-sharing vans used to transport persons with special transportation needs;
- motor vehicles owned by Indian tribes and enrolled tribal members (RCW 46.16.020);
- trailing units (semi-truck trailers), except those for hauling logs, used in conjunction with truck tractors which are subject to the additional 0.58 percent tax;
- rental cars which are subject to the rental car tax;
- vehicles licensed by the Taipei Economic and Cultural Office per RCW 46.16.374; and
- annual credit of \$30 for each personal-use vehicle including passenger cars, light trucks and motorcycles, effective with registrations occurring in July 1999.

Distribution of Receipts

LOCAL: Local MVET for high capacity transportation service distributed to R.T.A.

History

The motor vehicle excise tax was established in 1937 at a rate of 1.5 percent; previously, vehicles were subject to assessment under the property tax. The rate was increased to 2.0 percent in 1959. In 1969 the municipal motor vehicle excise tax of 1.0 percent was authorized as an off-set against the state tax, with the revenues going to local mass transit facilities.

The tax rate was increased to 2.2 percent in 1977 with the additional 0.2 percent tax dedicated to construction of state ferries. Also in 1977 the staggered licensing system, whereby vehicles are licensed for a 12 month period rather than on a calendar year basis, was adopted.

Surtaxes were adopted in 1982, raising the tax rate to 2.354 percent. The local sales tax equalization program, using state motor vehicle excise tax revenues, was established in 1982; under this program cities and counties with low per capita yields from their local sales taxes received additional funding using state MVET revenues. In 1987 an additional tax of 0.1 percent was enacted for two years with the receipts dedicated to ferry operations; this additional tax was incorporated into the changes made in 1990.

Comprehensive changes in funding of state and local transportation programs were enacted in 1990. Among the changes was a rollback of the motor vehicle excise tax rate to 2.2 percent and authorization for the local option motor vehicle excise taxes. Essentially, the previous state tax rate of 2.454 percent was reduced to 2.0 percent. However, no loss of revenue occurred as a result of changing from the previous assessment method using 12 depreciation schedules to the new system which bases the tax upon the original suggested retail price with one of three possible depreciation schedules. The additional 0.2 percent state tax was dedicated to the newly created state transportation fund.

The additional \$2.00 clean air tax was established in 1993 at a rate of \$2.25. The rate dropped to the current level in 1994.

In November, 1996, the Regional Transit Authority (R.T.A.) levied a 0.3 percent local motor vehicle excise tax, effective for collection in 1997.

In November, 1998, the voters approved Referendum #49, which established a maximum credit of \$30 per vehicle against the state motor vehicle excise tax. It also revised the formulas for distribution of the tax receipts, shifting funds from the general fund into the transportation fund to be used for highway purposes.

At the November, 1999 election the voters approved Initiative 695 which replaced the 2.2 percent state tax and the \$2.00 clean air excise tax with a maximum annual license fee of \$30 per vehicle. Although the Initiative was subsequently declared unconstitutional, the Legislature effectively repealed these state taxes and established the \$30 vehicle license fee by enacting SB 6865, Chapter 1, 1st Special Session, Laws of 2000 which was effective on January 1, 2000.

Discussion/Major Issues

The motor vehicle excise tax was in lieu of property tax. Taxing vehicles by the excise tax method guaranteed a uniform application of the tax throughout the state, compared with the variation in assessment methods and levy rates that would prevail if vehicles were subject to property taxation. However, the distribution of receipts did not correspond with property tax revenues and the rate of tax exceeded the average property tax levy rate.

Unlike the retail sales tax, the annual motor vehicle excise tax payment were deductible for federal tax purposes by persons who itemize their deductions in calculating federal income tax liability.

The annual motor vehicle excise tax was quite high compared with other states. In Oregon, for example, there is no annual tax on vehicles and the licensing fee for a passenger car amounted to \$30 for a two year period. (Washington's license fee previously was \$27.75 for a new registration and \$23.75 for annual renewals.)

The combined tax burden in Washington on newly acquired vehicles was probably among the highest in the nation. For example, the owner of a new vehicle costing \$20,000 would pay \$1,760 in retail sales tax (assuming 8.8 percent state/local tax rate and no trade-in), \$410 in state motor vehicle excise tax, and an initial registration fee of \$27.75 - a combined effective tax rate of 11 percent.

Legislation enacted in 2000 (RCW 84.36.595) stipulated that motor vehicles would remain exempt from property taxation, regardless of whether they were subject to a separate excise tax.

The major remaining issues relating to motor vehicle excise taxes concerns the 0.3 percent local tax for high occupancy vehicle lanes and the 0.725 percent tax for mass transit. By statute the 0.3 percent tax is to be calculated as a percentage of the state MVET tax rate. The 0.725 percent is to be deducted from the state MVET. Since the state tax no longer exists, it is not known if such local taxes could be imposed.

Also, there is concern about the loss of the local sales tax equalization program which no longer is funded, because of the loss of state MVET revenues. This has hurt cities, counties and transit districts with lower than average sales tax bases.